

Internal Audit

Audit Progress Report 2020-21

Mid Devon District Council
Audit Committee

September 2020

Robert Hutchins
Head of Audit Partnership



Auditing for achievement

Introduction

The Audit Committee, under its Terms of Reference contained in Mid Devon District Council's Constitution, is required to consider the Chief Internal Auditor's annual report, to review and approve the Internal Audit programme, and to monitor the progress and performance of Internal Audit.

The Accounts and Audit (Amendment) (England) Regulations 2015 introduced the requirement that all Authorities need to carry out an annual review of the effectiveness of their internal audit system and need to incorporate the results of that review into their Annual Governance Statement (AGS), published with the annual Statement of Accounts.

The Internal Audit plan for 2020-21 was presented and approved by the Audit Committee in June 2020. The following report and appendices set out the background to audit service provision; a review of work undertaken in 2019/20 and provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.

The Public Sector Internal Audit Standards require the Head of Internal Audit to provide an annual report providing an opinion that can be used by the organisation to inform its governance statement. This report provides that opinion.

Expectations of the Audit Committee from this progress report

Audit Committee members are requested to consider:

- the assurance statement within this report;
- the basis of our opinion and the completion of audit work against the plan;
- the scope and ability of audit to complete the audit work;
- audit coverage and findings provided;
- the overall performance and customer satisfaction on audit delivery.

In review of the above the Audit Committee are required to consider the assurance provided alongside that of the Executive, Corporate Risk Management and external assurance including that of the External Auditor as part of the Governance Framework and satisfy themselves from this assurance that the internal control framework continues to be maintained.

Robert Hutchins
Head of Devon Audit Partnership

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Opinion Statement

Overall, based on work performed during 2020/21 and our experience from the current year progress and previous years' audit, the Head of Internal Audit's Opinion is of "Reasonable Assurance" on the adequacy and effectiveness of the Authority's internal control framework.

This opinion statement will support Members in their consideration for signing the Annual Governance Statement.

Internal Audit assesses whether key, and other, controls are operating satisfactorily within audit reviews, and an opinion on the adequacy of controls is provided to management as part of the audit report. All final audit reports include an action plan which identifies responsible officers, and target dates, to address control issues identified. Implementation of action plans is the responsibility of management yet may be reviewed during subsequent audits or as part of a specific follow-up process.

Directors and Senior Management have been provided with details of Internal Audit's opinion on each audit review to assist them with compilation of their individual annual governance assurance statements at year end.

Substantial Assurance	A sound system of governance, risk management and control exists across the organisation, with internal controls operating effectively and being consistently applied to support the achievement of strategic and operational objectives.
Reasonable Assurance	There are generally sound systems of governance, risk management and control in place across the organisation. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of some of the strategic and operational objectives.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified across the organisation. Improvement is required to the system of governance, risk management and control to effectively manage risks and ensure that strategic and operational objectives can be achieved.
No Assurance	Immediate action is required to address fundamental control gaps, weaknesses or issues of non-compliance identified across the organisation. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of strategic and operational objectives.

Executive Summary of Audit Results

Core Audits of the Council's key financial controls remain constant and previous assurance work we have completed should hold true where systems continue to operate in the normal manner. We have completed reviews of both council tax and income collections systems and found that the control framework remains generally sound. We understand that other systems have not changed and therefore see little reason that assurance should be significantly adversely affected.

Recognising this the ongoing pandemic issue has had significant impact on the economy with knock-on to people and organisations ability to pay and there will be significant financial pressures on all councils to meet ongoing operation.

Significant funding has been made through the government and paid out through local authorities. We will programme some assurance work on compliance with requirements to support these arrangements.

Risk Based Audits have been undertaken in the first part of the year though capacity for this has been reduced during the current climate. Opinions for the current period are included in appendix 1 to this report.

Findings have generally found a good level of control and opportunity value for improvement in achievement of objectives.

Of particular note is the sickness absence monitoring process where there are ongoing changes being developed to improve the level of absence. We have found the current systems and processes to be generally sound though there is non-compliance in terms of evidence return to work meetings with employees. This is a known issue and is to be picked up with the new systems and procedures being developed.

We have reported, currently at draft stage, the area of partnership arrangements and 3rd party relationships. This is a topic that is receiving more interest across many organisations. The Councils current regulation on this is strong yet given the wide-ranging relationships our testing has been limited. We have identified the need for improvement in management control and plan to review this further during the current year.

Other Work

Tender documents have been verified as usual.

Value Added

We know that it is important that the internal audit service seeks to "add value" whenever it can and we believe internal audit activity has added value to the organisation and its stakeholders by:

- Providing objective and relevant assurance;
- Contributing to the effectiveness and efficiency of the governance, risk management and internal control processes.

We agreed with the Partnership Management Board that we would undertake assurance mapping for each partner. We have developed and implemented a review across each and will be sharing lessons from these reviews across all partners. These reviews will follow industry recognised processes including the 3 lines of defence model now known as the 3 Lines Model. This has already identified gaps in knowledge within the control framework and that of additional assurance available. When complete these reviews will strengthen the governance arrangements for each partner and improved assurance in line with Public Sector Internal Audit Standards.

We will bring a separate report to the audit committee when a wider base of assurance has been developed.

Audit Coverage and Performance Against Plan

Performance against plan shows work has yet to gain pace though we anticipate and plan to make more significant inroads in the second half year. In recognition of the pandemic and the consequential impact that has on service delivery the DAP Management Board agreed to the change in working practices (Assurance Mapping etc) and expected reduction in audit delivery across all partners. This will be undertaken in a balanced approach ensuring all partners receive fair coverage so that an assurance opinion can still be provided at year end. Changes to audit plans will be agreed with management and reported to audit committee appropriately.

Staffing - We have lost a key member of our audit team at the beginning of the year where they now work in MDDC Finance Team. Replacement has not been practical in the current climate, where instead, we have restructured and put together a Team of auditors, headed by a new audit manager, to deliver our district council partner needs including those of MDDC. This should strengthen the skill base and resilience going forwards.

Training – we continue to develop our staff and have engaged many across the partnership over the last few months on a range of areas including

enterprise risk management, business continuity, reputational risk management, counter fraud, report writing and leading internal audit etc.

Covid-19 response – we have, with the DAP Management Boards agreement, supported the response plans across partners. Some more directly than with others though, for example, our co-ordinating work with the Devon Food Cell supported the wider community across the whole of Devon.

Appendix 1 to this report provides a summary of the audits undertaken since our last progress report in June 2020, along with our assurance opinion. Where a "substantial assurance" or "reasonable assurance" of audit opinion has been provided we can confirm that, overall, sound controls are in place to mitigate exposure to risks identified; where an opinion of "limited assurance" has been provided then issues were identified during the audit process that required attention. We have provided a summary of some of the key issues reported that are being addressed by management. It should be pointed out that we are content that management are appropriately addressing these issues.

Key performance indicators on progress against audit recommendations reveals that the Council continues to make progress though there remain several recommendations outstanding from prior year audits. See appendix 2.

Fraud Prevention and Detection

There have been no reported issues in the year to date. We understand that review work has been undertaken on COVID-19 related measures e.g. small business rate relief and we have provided national guidance information to our partners to support arrangements. Management are aware that they can refer any suspected issues to our counter fraud team. We will liaise with management to undertake some sample testing of payments for compliance purposes.

Customer Satisfaction – satisfaction returns specific to MDDC have yet to be received this year though in general for DAP, survey returns score 98% satisfaction year to date.



Appendix 1 – Summary of audit reports and findings for 2020-21




Risk Assessment Key

Spar – Local Authority Risk Register score Impact x Likelihood = Total & Level
 ANA - Audit Needs Assessment risk level as agreed with Client Senior Management
 Client Request – additional audit at request of Client Senior Management; no risk assessment information available


Direction of Travel Assurance Key

Green – action plan agreed with client for delivery over an appropriate timescale;
 Amber – agreement of action plan delayed or we are aware progress is hindered;
 Red – action plan not agreed or we are aware progress on key risks is not being made.
 * report recently issued, assurance progress is of managers feedback at debrief meeting.

Risk Area / Audit Entity	Audit Report			Direction of Travel Assurance
	Assurance opinion	Executive Summary / Residual Risk	Summary of Recommendations High / Med / Low	
Core - Key Financial Systems				
Council Tax, NNDR Risk / ANA: ANA –High Spar 3x2=6 Medium	Substantial Assurance Status: Final	<p>The control framework for council tax and NDR remains sound and the operation of controls by staff on a day to day basis is considered to be effective. Customer accounts were found to be effectively managed and amendments are processed in good time. We found no material concerns from our review. One of the key compliance controls has not been operating during the year due to staff availability which reduces the internal control assurance, however, we understand that this will be resumed. At the time of the audit, staff were in the process of reviewing of the Small Business Rates Relief to ensure income maximisation from Non - Domestic Rates. This is the second year that this has been undertaken and it will provide some additional assurance to the emergency arrangements for business grant relief during the current pandemic.</p> <p>Work has been carried out to ensure accuracy of reconciliations between the cash receipting system and the Northgate system (Revenues and Benefits). These are now up to date and are carried out by Finance.</p> <p>There is an effective process in place to monitor arrears and progress with recovery. Detailed testing of this will be carried out in the 2020-21 audit plan.</p>	0 2 0	
Income Collection Risk / ANA: ANA - Medium Spar	Reasonable Assurance Status: Draft	<p>The control framework for income and debt collection is generally sound and testing found that invoices are raised and collected in an appropriate manner. Reconciliations have improved and are timely which should provide second line control to ensure prompt and accurate posting to the accounts.</p> <p>Recommendations made in the previous report have not all been progressed and those regarding user access and data retention remain outstanding (a new member of staff has now been tasked with this). It is recognised that there are systems limitations for managing record retention, however, there is increased risk of non-compliance with data protection where information is retained unnecessarily.</p>	0 8 2	

Risk Area / Audit Entity	Audit Report					
	Assurance opinion	Executive Summary / Residual Risk	Summary of Recommendations High / Med / Low			Direction of Travel Assurance
Creditors System Risk / ANA: ANA –Medium Spar 4x2=8 Low	Status: in progress	We are currently reviewing the creditors system. This years focus is on compliance taking into consideration the changes in staffing. There are no material issues coming from this review to date.		n/a		
Risk Based Reviews						
Members Allowances Risk / ANA: ANA – Low, Client request Spar n/a	Reasonable Assurance Status: Final	<p>The area of Members' Allowances is of good standard overall; some minor improvements would achieve a level of high standard.</p> <p>Control around policy and procedure provides substantial assurance. The Council has an independent remuneration panel who reviews the Scheme each year; they produce a report which outlines any recommendations they have made. Their report is presented to Council where Members elect whether to adopt the recommendations.</p> <p>Members may be appointed special responsibilities which are remunerated additionally to the standard allowance. These allowances are effectively paid like a salary and so the key control required is at the establishment of the allowance. We identified that one members allowance, previously paid was not stopped after the election and was paid for the following year. We have previously reported that control check is needed to ensure that these key changes are checked, by Member Services, following input and subject to in-year monitoring control. The absence of these controls has resulted in this overpayment, £3400, not being detected (currently being recovered).</p> <p>Members use the on-line system MyView to process their expenses and subsistence claims. We consider that the control framework provides substantial assurance of control with regard to the raising, authorisation and payment of expenses and subsistence claims.</p>	0	2	3	
Sickness Absence Risk / ANA: ANA – Med Spar n/a	Reasonable Assurance Status: Final	<p>It is considered that there is good control environment with regard to the management of sickness absences. There is a recently updated sickness absence management policy in place which provides guidance for managers and employees on the protocol they need to follow at times of sickness.</p> <p>The HR system provides meaningful reports which allows the HR Business Partners to notify Managers when the pre-determined sickness absence trigger has been reached in any 12 month period. It appears that managers are pro-active in</p>	1	4	2	

Risk Area / Audit Entity	Audit Report					
	Assurance opinion	Executive Summary / Residual Risk	Summary of Recommendations High / Med / Low			Direction of Travel Assurance
		<p>following HR guidance and carry out the appropriate course of action. However, assurance is reduced where completeness for return to work forms was not well evidenced.</p> <p>Managers are required to complete both an on-line form and a manual form which evidence different parts of the process. Services that do not use the time recording system have no incentive to ensure that the on-line forms are completed. A 'return to work interview' (manual form) was only found for four out of the 27 occasions of absence. It is, therefore, difficult to determine whether managers are having discussions with employees upon their return from sickness absence. Discussions can be valuable in ascertaining the wellbeing of the individual and whether the absence is work related. A further area for improvement is the identification and monitoring of unpaid absences.</p>				
Counter Fraud Risk / ANA: ANA – Low Spar 4x2=8 Low	Opportunity Status: Final	<p>There are recognised policies and procedures within the Council for the management of fraud. Our review confirmed that management are clear on their understanding of the requirements and expected action. There are few recognised incidents of fraud and whilst this can be taken as a level of comfort, all agreed that there is opportunity to improve identification, reporting, prevention and management of potential fraud to improve the assurance that can be taken from the current level of general awareness. This should also lead to an improved consciousness of dealing with any potential incidents that may arise. The Council's Audit Committee are keen to engage further support from our counter fraud services.</p>	0	0	9	
Partnership Management Risk / ANA: ANA – Medium Spar – 4x2=8 Low/amber	Limited Assurance Status: Draft	<p>The main consideration relates to the definition of 'what is a partnership' and recognition of 3rd Party Relationships. The Council's financial regulations set clear understanding of how formal partnerships are to be agreed and this is recognised in the strategic risk register. There are only two formal partnerships which are governed by proper legal agreements.</p> <p>There are, however, a large number of informal partnerships many of which the Council is dependent on for achievement of corporate objectives and or where, for example information governance, where risks are not clearly recognised or defined. We have not seen a strategy on how the corporate objectives are to be met through partnerships and feel that there could be value in strengthening governance through implementation of a strategy. Our key area of concern is that of management control of partnerships where there is no control record of partnerships / 3rd Party</p>	1	5	0	*

Risk Area / Audit Entity	Audit Report					
	Assurance opinion	Executive Summary / Residual Risk	Summary of Recommendations High / Med / Low			Direction of Travel Assurance
		arrangements and though there were agreements found in sample review, these were not consistent in content nor signed copies available in several cases. Wider review and control is required to provide greater assurance on governance arrangements particularly where they may support wider corporate objectives.				
Assurance Mapping Risk / ANA: ANA – Low - new system	Opportunity Status: ongoing	We are making progress in our creation of an assurance map to support wider governance assurance and to enable focused review with reduced capacity since COVID-19 restrictions. There is still significant work to do on this, however, there are emerging themes where there are gaps in previously identified control framework knowledge or assurance. We will pick up on these areas in the coming months. Key themes emerging <ul style="list-style-type: none"> - 1st line control - 3rd party risk, business continuity and management control reporting and links to business plans - 3rd line control – independent assurance other than internal audit Audit reviews will assimilate these areas into the work programme and focused sample testing will be completed to support the wider assurance opinion.		n/a		
Coming Audit Reviews	Status: Planning	Building Control – joint findings with NDDC Debt Recovery Procurement We are currently agreeing audit scopes for these reviews		n/a		

The following audits have been completed and draft reports are being prepared for:

- ICT Core

No material concerns have been identified with these reviews. Opinions will be provided in the next progress report.

The remaining plan work is currently being scheduled for completion during the second half of the year though in agreement with client some will be deferred until into the 2021-22 plan year).

Appendix 2 – Performance Indicators


Incomplete Audits	Year	Recommendations									Direction of Travel R,A,G	Comments			
		High			Medium			Low					Total		
		C	N	O	C	N	O	C	N	O			C	N	O
Development Management S106	2017			2			3				0	0	5	R→	Progress being monitored by LT. S106 Governance arrangements approved by Cabinet. ICT are developed an in-house software solution currently doing data migration stage. CIL action plan delayed due to Inspector review of Local Plan. Currently running two systems July 2020.
Equality impact assessment	2018	1			3					1	4	0	1	R→	Use of equality impact assessments for all restructuring processes.
Procurement	2018			1	4		2				4	0	3	R→	Corporate Procurement Strategy outstanding - deadline extended. Monitoring Waivers over £10k to Audit Committee.
Payroll	2017	3			6		1				9	0	1	R→	Call logged with Zellis, awaiting information on how to set up auditing using the auditing report
Building Control Partnership	2018			1							0	0	1	R→	Management meetings between MDDC and NDDC to be established
Insurance	2017				3					1	3	0	1	R→	Insurance checks for external contractors. 75% contracts are sourced through Framework agreements or SLoAC; compliance insurance is monitored through these agreements.
Creditors	2019	1			1					1 1	2	1	1	↗	Reconciliation review being reallocated due to sickness absence.
Creditors	2018				3	1		1	2		4	3	0	↗	On-line pro-forma has not yet gone 'live'. End-user testing complete, ICT now to resource the change need - date extended.
Job Evaluation	2019						5			3	0	0	8	↗	
Housing Health & Safety	2019	1			8	7		1	1		10	0	8	↗	Policies were approved at Cabinet May 2020 - report backlog and systems improvements still being worked through
Private Sector Housing	2019				2	3		3			5	0	3	↗	
Debtors	2019				1	2		1	2		2	0	4	↗	New staff member in place revised date Sept 2020
Vehicles & Fuel	2015	5			6	1					11	0	1	↗	Transport policy approved and implemented April - currently working through matters with staff groups - near complete.
Sickness and Absence	2020		1			2 2			1 1		0	4	3	↑	
Housing Benefits	2018				1	1		1			2	1	0	↑	Re-tendering of disaster recovery contract deferred pending review of local recovery solution July 2020
Ctax and NNDR and recovery	2018	1			2	1		3			6	0	1	↑	Outstanding S106 invoice escalated to now Legal for debt recovery
Business Continuity Planning	2018						2				0	0	2	↑	Links to third party assurance
Members Allowances	2020						2			4	0	0	6	↑	
Safeguarding	2019	2			3	1					5	0	1	↑	3 safeguarding awareness training sessions have been carried out with operatives during May 2020. Now need to pick up on those who were unavailable at the time.
Vehicles & Fuel	2019		1		1						1	1	0	↑	
Housing Benefits	2019				2	1					2	1	0	↑	
ICT Service Transition	2019	3	1		3	5					6	6	0	↑	
Asset Management	2019					2 0			2		0	4	0	↑	dates extended
		17	3	4	49	12	32	10	6	14	76	21	50		


CORE
8 SYSTEM


C = Completed 52%

N= Not yet due 14%

O= Overdue 34%

Not progressing 

Progressing some overdue 

On Target 

* report just issued

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Devon Audit Partnership

The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay, Devon & Torridge councils. We aim to be recognised as a high quality internal audit service in the public sector. We work with our partners by providing a professional internal audit service that will assist them in meeting their challenges, managing their risks and achieving their goals. In carrying out our work we are required to comply with the Public Sector Internal Audit Standards along with other best practice and professional standards.

The Partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at robert.hutchins@devonaudit.gov.uk.